
Strategic Budgeting

The District government continues to make important strides in financial management and significant improvement in service delivery. Balanced budgets and timely, clean Comprehensive Annual Financial Reports are the norm, even in difficult economic times. As the District makes routine much of its financial activities, we continue to examine our business operations and seek to leverage our management reforms and other tools to improve the quality of the government and the services provided to residents, businesses, and visitors.

These initiatives range from very focused and targeted to a global reach. While there should be no illusions that any of these efforts are magic bullets quickly turning the District's government into a world class organization, they do help the District build on the Mayor's success in stabilizing basic program delivery and reforming management practices that came from his first term in office.

Noted budget expert and historian V. O. Key stated in 1940 that the purpose of budgeting is "On what basis shall it be decided to allocate X dollars to Activity A instead of Activity B?"¹ For the past 60 years, this has guided budgeting practices, even as these practices have evolved. From

the controlling functions in the early 1900s to the new performance budgeting of the 1990s (See Table 2-1), the emphasis of budgeting has changed, but the basic question has remained unchanged.²

Now, in the 21st century, while the emphasis on accountability and efficiency remains, the basic question has indeed changed. No longer is the focus solely on the centralization of information for the purposes of planning and allocating resources. There is now a new emphasis on empowering program, activity, and service managers with accurate real-time information so that they can make informed management decisions to deliver better results.

¹ V.O. Key, Jr., "The Lack of a Budgetary Theory," *American Political Science Review*, 34 (December 1940), 1137.

² Charlie Tyler and Jennifer Willand. *Public Budgeting in America: A Twentieth Century Retrospective*.

Table 2-1

Periods of Budget Reform

Period	Budget Idea	Emphasis
Early 1900s	Line-Item Budget Executive Budget	Control
1950s	Performance Budget	Management Economy and Efficiency
1960s	Planning Programming Budget System	Planning Evaluation Effectiveness
1970s and 1980s	Zero Based Budgeting Target Based Budgeting Balance Budgeting	Planning Prioritization Budget Reduction
1990s	New Performance Budget	Accountability, Efficiency, and Economy

Table 2-2

Office of the Chief Financial Officer Budget and Management Initiatives

Budgetary Initiatives	Management Initiatives
Performance-Based Budgeting	CFOSource
Agency Financial Operations Program	Benchmarking
ARGUS – New Budget System	Strategic Partnership with the Office of the City Administrator
Service-Level Budgeting	MSS training for program staff

For the District of Columbia, the question that we are trying to answer would more appropriately be:

"How do we provide accurate real-time financial and performance data to decision-makers, service and program managers for prioritizing programs and for efficient execution of programs so that both groups can make informed management decisions in the best interest of the District?"

While it may lack Key's eloquence it captures the tension that exists between centralizing financial and performance information for setting strategic priorities versus providing information to those that manage the services the District provides.

The function of strategic budgeting in the District has been to address the challenge by bringing innovation and collaboration to budgeting and performance management practices. With Mayor and Council support, the Office of the Chief Financial Officer (OCFO) has initiated several projects to improve our budgetary, performance, and financial practices. These projects

have resulted in changes to our structures and methodologies for managing performance and budgets. This chapter outlines the current status of these initiatives.

The initiatives can be classified according to their emphasis. Some are purely budgetary while others are more management and performance-related. Table 2-2 lists these initiatives.

Performance-Based Budgeting

The District has embarked on an ambitious effort to rethink how the District articulates what it does and how it funds it, as well as how results are reported. Performance-based budgeting (PBB) links spending to programs and activities instead of boxes on an organization chart, allowing results to be measured. This lets public officials, program managers, and the public better monitor if money is being spent wisely, whether a program is achieving its goal, or if the money could be better spent elsewhere.

In FY 2001, Council passed legislation (DC 47-308.01) requiring the Mayor's budget to be performance-based. The law specified that the

Table 2-3

District PBB Phases of Implementation**FY 2003 - Phase I**

Department of Public Works	District Department of Transportation
Metropolitan Police Department	Department of Motor Vehicles
Fire and Emergency Medical Services Department	Department of Human Services
	Office of the Chief Financial Officer

FY 2004 - Phase II

Office of the Mayor	Office of the City Administrator
D.C. Office of Personnel	Office of Contracting and Procurement
Office of the Chief Technology Officer	Office of Property Management
Office of the Corporation Counsel	Office of Planning
Department of Housing and Community Development	Office of the Deputy Mayor for Planning and Economic Development
Department of Employment Services	Department of Corrections
Department of Consumer and Regulatory Affairs	Department of Banking and Financial Institutions
Department of Insurance and Securities Regulation	Office of Cable Television and Telecommunications
D.C. Emergency Management Agency	Office of the Chief Medical Examiner
Department of Health	Office of Human Rights
D.C. Office on Aging	Department of Parks and Recreation
Department on Mental Health	Child and Family Services Agency
State Education Office	Commission on the Arts and Humanities

FY 2005 - Phase III

Office of the Secretary	Customer Service Operations
D.C. National Guard	Corrections Information Council
Commission on Judicial Disabilities and Tenure	D.C. Advisory Commission on Sentencing
Office of Citizen Complaint Review	Criminal Justice Coordinating Council
Judicial Nomination Commission	D.C. Energy Office
Office on Latino Affairs	Office of Veteran Affairs
Office of Asian and Pacific Islander Affairs	D.C. Taxicab Commission
D.C. Lottery and Charitable Games Board	D.C. Public Library
University of the District of Columbia	Office of the People's Counsel
Public Service Commission	Office of Zoning
Alcohol and Beverage Regulation Administration	Board of Real Property Assessments and Appeals
Office of Motion Picture and Television Development	Office of Local Business Development

FY 2006 - Phase IV

Council of the District of Columbia	Office of the D.C. Auditor
Office of Advisory Neighborhood Commissions	Office of Finance and Resource Management
Contract Appeals Board	Board of Elections and Ethics
Office of Campaign Finance	Public Employee Relations Board
Office of Employee Appeals	Office of the Inspector General
Office of Administrative Hearings	D.C. Office of Risk Management
D.C. Public Schools (Tentative)	Office of Finance and Resource Management

following must be included in the budget presentation:

- Program name
- Agency strategic result goals
- Estimated total program, activity, and service costs
- Program overview describing activities provided
- Program performance measures
- Estimated program costs
- Full-time equivalents for the prior, current, and next fiscal year
- Program benchmarks providing comparisons with other jurisdictions

Later legislation modified some of these requirements, such as service-level costs and benchmarks, for specific agencies.

Planned as a multi-year implementation, PBB replaces the existing organizational budget structure with a structure that shows programs, activities and services. These plans incorporate an agency's mission, major initiatives, and short and long-term goals with performance measures for the programs, activities, and services they provide. Building on the momentum created by the success of the first three phases of PBB, the District will complete the implementation next year when 14 remaining agencies transition to PBB for FY 2006. Table 2-3 lists the fiscal year for which each agency transitioned, or will transition.³

PBB Impact on Budget Development and Budget Execution

Moving to PBB will blur the lines that have clearly marked the beginning (distribution of the budget instructions to agencies) and ending of the budget development period (Council/Congress adoption of the budget). PBB shifts the focus to a continuous process of planning, budgeting and evaluating programs. By putting planning activities before the budget process and program performance after budget

adoption, the planning, financial management, and performance evaluation functions merge to become an effective agency management tool that also drives the budgeting process.

The technical elements of budgeting, such as estimating revenues, projecting personnel costs, and accounting for inflation, do not change within PBB. However, in the coming years, as PBB implementation matures with performance data collection and reporting processes, the budget development process will shift focus from technical budgeting to program costs and program results.

Performance-based budgeting also impacts budget execution. Because an agency's new program structure aligns agency resources to the work the agency performs, agency spending is shown more clearly, allowing policy makers to know exactly where an agency is spending its allotted dollars.

The Mayor and Council can use the program structure to make decisions about where they should place additional resources, or where to reduce spending. The idea of targeted reductions based on policy priorities is not new. However, if no structures are in place that show the work performed, budget reductions are often made across the board or at the agency level without knowing what will be affected. It is much better policy to target specific areas for reduction than paring a little from everything. PBB enables such decisions.

Agency Management Program

An additional benefit of PBB is the ability of the District to track specific expenses across various agencies. In FY 2004, the Agency Management Program (AMP) was developed for PBB agencies to track costs for common administrative expenses across the District. The completed PBB agency strategic business plans include the AMP and up to 13 of its associated activities, depending on whether the agency performs that function. Among these activities are:⁴

Personnel - Provides human resource services to

³ Not all agencies represented in the District's budget will be transitioned to PBB. Those not transitioning to PBB are regional enterprises and/or enterprise funds that do not report to the Mayor and/or Council.

⁴ For a complete list, please see the glossary under Agency Management Program.

agencies so they can hire, manage, and retain a qualified and diverse workforce.

Training and Employee Development - Provides training and career development services to department staff so they can maintain/increase their qualifications and skills.

Labor-Management Partnership - Creates a structure in which agencies can collaboratively resolve workplace issues.

Property Management - Provides real estate and facility services to agencies in a timely, efficient, and effective manner in keeping with current District operations, industry standards and best practices.

Information Technology - Provides network, telephone, and computer hardware and software support and information services to departmental management and staff so they can use technologies to produce, communicate, and manage information.

Financial Services - Provides financial and budgetary information to departmental program/administrative units to ensure the appropriate collection/allocation, utilization and control of District resources.

The AMP brings consistency in budgeting and performance reporting for the District's administrative services and allows for more accurate tracking of administrative costs.

Agency Financial Operations

As part of the process for developing the FY 2005 proposed budget, the funding and FTE count for all OCFO FTEs assigned to the agencies is separated into a program called Agency Financial Operations (AFO). The purpose of the AFO program is to provide comprehensive and efficient financial management services to and on behalf of all District agencies. This program is included in the program structure in the OCFO's strategic business plan to show the direct reporting relationships between agency

financial personnel and the CFO. It also is being added to each of the strategic business plans for PBB agencies.⁵

Agency financial operations are managed by the Associate Chief Financial Officers (ACFOs) who serve as the key contact between the Office of the Chief Financial Officer and the Deputy Mayors in managing the agency finances.⁶

The five ACFOs each represent one of the major appropriation titles in the District's budget: Governmental Direction and Operations, Economic Development and Regulation, Government Services, Human Support Services, and Public Safety and Justice. Agency fiscal officers report to their respective ACFO.

The Future of PBB

During the summer of 2004, the District will implement the fourth and final phase of performance-based budgeting by transitioning remaining agencies to PBB. Each of these agencies will develop a strategic business plan, including a new program and activity structure, agency strategic result goals, key result measures, and a suite of activity performance measures. Additionally, some of the PBB Phase I and II agencies will revisit their strategic business plans to update their plans as needed. While performance measures should ideally remain constant to provide historical information, agencies will have the opportunity to update their strategic goals, programs, activities, and services. This may lead to updated or enhanced performance measures for their programs.

As we complete the transition to PBB, we are also making the transition to performance-based management. Elements of this transition are discussed throughout this chapter.

ARGUS : The District's New Budget and Performance System

Parallel to the PBB implementation, the District is developing a new web-based budget system to take advantage of the program, activity, and ser-

⁵ For more detail on the Agency Financial Operations program, please see the glossary under AFO.

⁶ All financial positions within District agencies report to the Chief Financial Officer, though many of these employees work on-site at agency locations. For budgetary purposes, funding for these positions assigned to the agencies is included in the various agency budgets. This funding is not duplicated in the budget for the OCFO. For FY 2005, personal services and discrete financial costs (e.g. contracts) are included. Since this is new for FY 2005, crosswalks have been prepared for comparison purposes. In addition, the FTEs also are included in the agency FTE counts.

vice budget structures as well as related performance measures. ARGUS⁷ will allow greater program staff involvement in the budget development of their programs, activities, and services, thus improving the overall quality of the budget. The three modules - planning, scorecard, and analyzer - will support the District's budget development, planning, and execution functions, as well as performance reporting and management. Some of the capabilities that ARGUS brings are:

Budget Formulation and Execution

- Automated information flow between agencies and the Office of Budget and Planning
- Integration between the revenue forecasting and funding projection functions
- Automated modeling and scenario planning capability
- Integrated spending plan development

Performance Management

- Automated and centralized performance management with centralized target setting, result collection and reporting functions
- Strengthened linkage between citywide priority area initiatives and agency strategic planning, programs and activities
- Reinforced accountability for agency, program and activity managers
- Increased visibility of actual results compared to stated goals and targets

Management Decision-Making

- Powerful and interactive analysis interface
- Reporting from a central source

In addition, the budget system will be integrated into the District's other administrative and operational systems (procurement, general ledger, and human resources), allowing for improved information sharing and accuracy in budgeting and planning for positions, capital, grants, and other key areas. The new budget system provides a valuable opportunity to simplify, standardize, and systematize the budgeting and

planning processes. The goal is to provide District program and finance staff with cutting edge technology and tools to better manage programs and the resources that support them.

It should be noted that as part of the data collection process for implementing the performance management component of ARGUS, staff from all PBB agencies, the Office of Budget and Planning (OBP) and the Office of the City Administrator (OCA) have been working to finalize the set of measures to be included in the scorecard. In some cases, these updates were included in the agency narratives in March. Additional changes are reflected in agency narratives in this volume.

Budget Advisory Council

In FY 2004, OBP established a Budget Advisory Council (BAC) to assist in providing guidance and vision to the District's budget activities. Members of this council include respected academics and practitioners in the fields of financial and performance management, public management, public policy and budgeting.

The BAC serves in an advisory capacity to OBP, providing guidance and recommendations on topics including, but not limited to, budget development, fiscal policy and long-term financial planning, programs, budget shortfalls, processes, emerging policy issues, metrics, the increasing costs of government services, and integration of strategic business planning with the budget process.

It is anticipated that the involvement of this group will positively influence the way financial and budget policies and strategies are developed and implemented within the District.

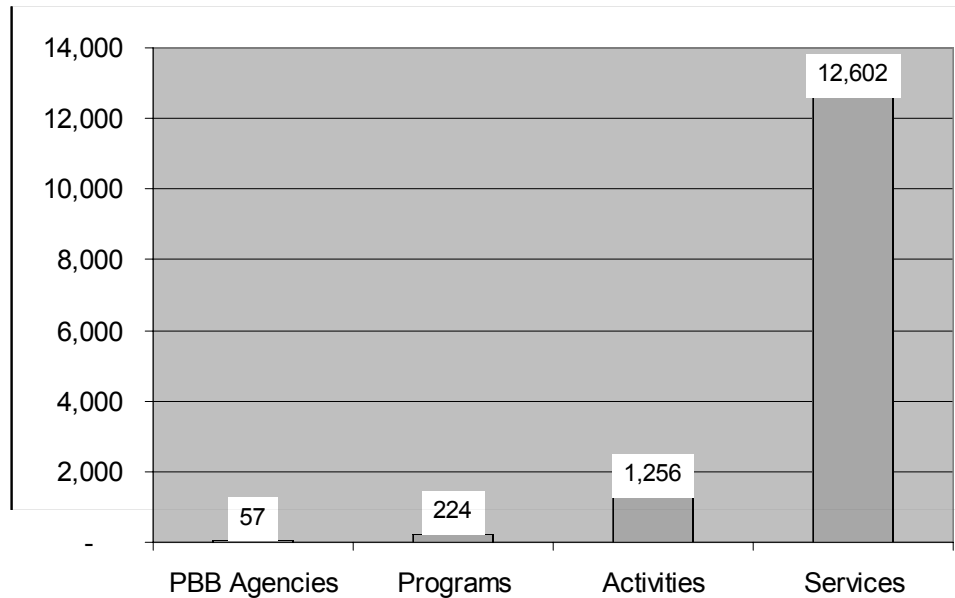
Service-Level Budgeting

Performance-based budgeting has created a uniform structure within every agency for presenting the work that they do. Agencies manage programs, programs are made up of activities, and activities consist of services. Currently, the District budgets at the activity level. For each of the 57 agencies that have transitioned to PBB

⁷ Argus is a mythological creature considered to be "all seeing" because he is said to have had 100 pairs of eyes. The new budget and performance system will assist the District in overseeing the budgeting process as well as monitoring agencies' performance.

Figure 2-1

Total Number of PBB Agencies Programs, Activities, and Services, FY 2005



there is an average of 10 services for each activity. See Figure 2-1.

The District's Approach

As we implement service level budgeting (SLB), we recognize the challenges and want to move forward deliberately. For FY 2005, the District will develop service-level costing information for

20 services identified by the District Council (see Table 2-4). In FY 2006, developing service level budgets for 12,602 services presents a daunting challenge. Rather than budgeting and, more importantly, accounting for every service, we plan to focus on those services that are of the highest importance to stakeholders.

To identify key District services for SLB in

Table 2-4

Service-Level Budgets for the FY 2005 Budget and Financial Plan

<p><u>Metropolitan Police Department</u></p> <ul style="list-style-type: none"> Responding to Calls for Service Office of the Assistant Chief for ROC-Central Executive Protection Unit Homicides, Assault with Intent to Kill, and Major Crimes Investigations Family Liaison Unit Auto Theft Witness Protection Recruiting Force Investigation Team <p><u>Office of the Corporation Counsel</u></p> <ul style="list-style-type: none"> Establishment of Paternity and Support and Enforcement of Support Order Litigation 	<p><u>Department of Corrections</u></p> <ul style="list-style-type: none"> Employee/Vendor/Volunteer Background Screenings Contraband Search and Seizures Escorted Trips Release Plans Preventive Maintenance Program Housekeeping, Clothing and Bedding Supplies Substance Abuse Programs <p><u>Office of the Chief Medical Examiner</u></p> <ul style="list-style-type: none"> Death Certificates Autopsy Reports <p><u>Fire and Emergency Medical Services Department</u></p> <ul style="list-style-type: none"> Advanced Life Support Services
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FY 2006, we suggest the following criteria:

- **Dollar threshold** - The service should have high dollar value. Rather than spending administrative and bookkeeping effort on services with few dollars, we would want to focus on services most important to District residents and stakeholders.
- **Policy significance** - Similarly, we would also want to focus on policy areas of significance. Not all services are equally important. For example, hypothermia services would be of greater policy significance than letter routing and tracking service delivery for an administrative task.

Challenges

As the District examines the feasibility of implementing SLB, it faces many challenges.

- Performance structures do not extend to the service level. Though we can budget at the service level, performance is currently not tracked at the service level.
- Presenting financial data at the service level will certainly increase the size of budget documents significantly. This may require that service level accounts be published electronically only.
- It will take at least until FY 2009 for all agencies to have financial data available so that they can budget at the service level.
- Current budget execution policies, reprogramming regulations and procedures do not address service-level issues and will need to be revised.
- The level of effort required to develop and monitor the execution of the budget will increase, as more details will make the budget more complex.

With that said, SLB also has several advantages, primarily that it allows for greater clarity and transparency in agency budgets. For example, MPD, at the activity level, still has large amounts of budget in one activity. The Regional Operations Command-Central, an activity in the Regional Field Operations program, has a budget of \$71,325,539. Splitting this activity budget into its seven associated services provides more accountability.

CFO\$ource: Empowering Real-time Decision-Making

CFO\$ource is a powerful management tool created by OBP in 2003. This web-based application provides online standardized financial reports from SOAR, the District's financial system of record. Analytical "cubes" let users look at high-level financial data while drilling down to specific programs, activities, funds or objects. We currently have two analytical cubes - operating funds and grant funds - and are developing a third cube that will provide financial data for capital projects.

Bringing all this information and more together into one place will be the CFO\$ource "Dashboard". This visual tool will let agency heads and their staffs access financial and programmatic information in one place. Information related to budget, payroll, procurement, and performance measures is included, along with trend data, historical information and metrics. Links to published monthly financial reports and customized analytical cubes will give users the information to monitor their agencies properly. Future releases will provide District users with more detailed information on payroll, procurement, and agency performance, as well as other key information. See Figure 2-2 for a sample screenshot of the Dashboard.

Benchmarking

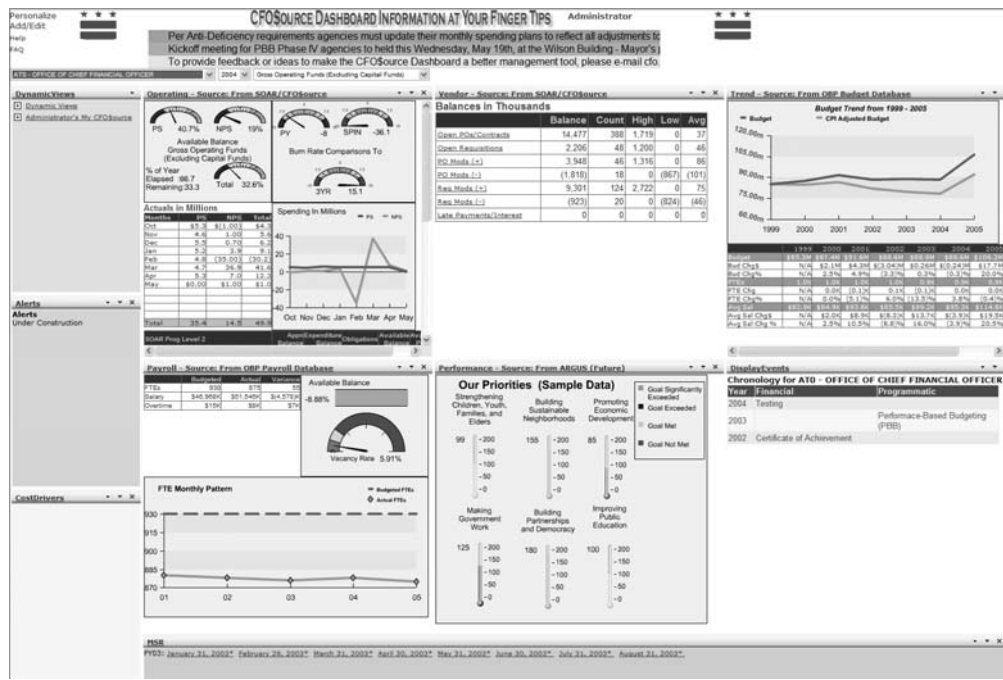
For the District, benchmarking is a comparison between District programs and comparable external governments to assess performance and efficiency. Benchmarking helps identify potential program efficiencies by comparing them with similar programs in other cities. Another benefit is the development and fostering of a culture of program management focused on continuous improvement.

The District uses three types of benchmarks. An example of each type follows on the next page.

Type I: Comparisons against other jurisdictions at a point in time.

This type of analysis allows the District to compare results, outputs, demands, and efficiencies with other jurisdictions to determine the effi-

Figure 2-2
CFO\$source Dashboard



Note: For illustrative purpose only. Final dashboard may not look the same.

ciency and/or effectiveness of District programs.

Type II: Trends over time.

Trends allow the District to focus on improvement relative to prior years' performance, allowing for historical analysis of agency programs.

Type III: Composite benchmarks.

Composite benchmarks allow for in-depth analysis of District performance relative to other jurisdictions.

As part of the FY 2005 budget requirements, selected PBB agencies were asked to develop benchmarks at the program level. These benchmarks are included in the Special Studies volume.

Strategic Partnership with the Office of the City Administrator

OBP and OCA have embarked on a strategic partnership to integrate the finance and program elements of the District's performance management system. The shared responsibilities of OBP and OCA include reviewing agency performance

measures, facilitating the strategic business planning process and, most recently, establishing data quality control standards for District performance information.

For example, the Performance Measure Data Collection Manual was launched in FY 2004 to document District agency data collection processes for performance information. The process has enabled agencies to verify and validate data limitations, explain data collection methodologies and quality assurance mechanisms, and document the formulas for performance measures.

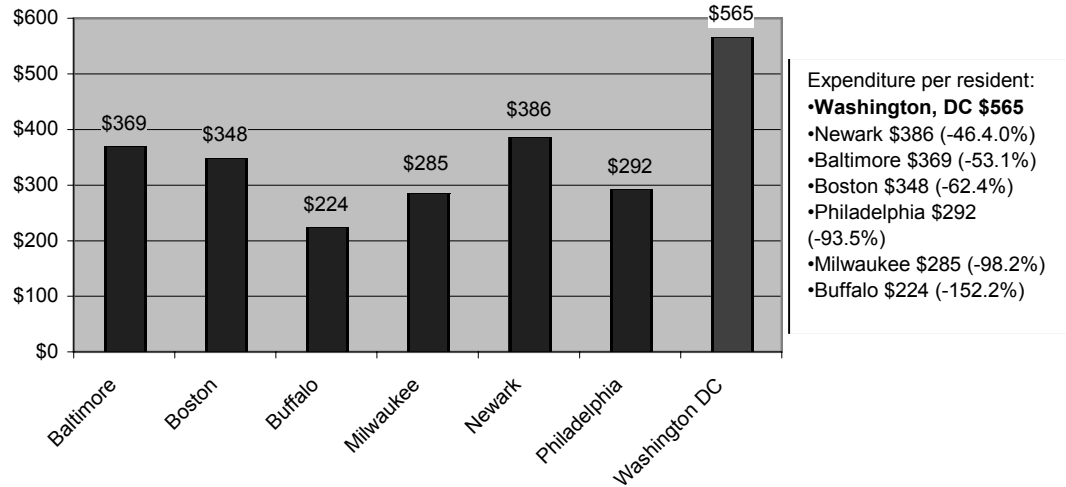
The success of the District's performance management program relies on the integrity and integration of each component of the District's system. Together, OBP and OCA are realizing a new vision of program and financial management in District government that will improve the quality of program management and government services.

Integrating PBB into the District's Strategic Management Cycle

The District's Strategic Management Cycle rep-

Figure 2-3

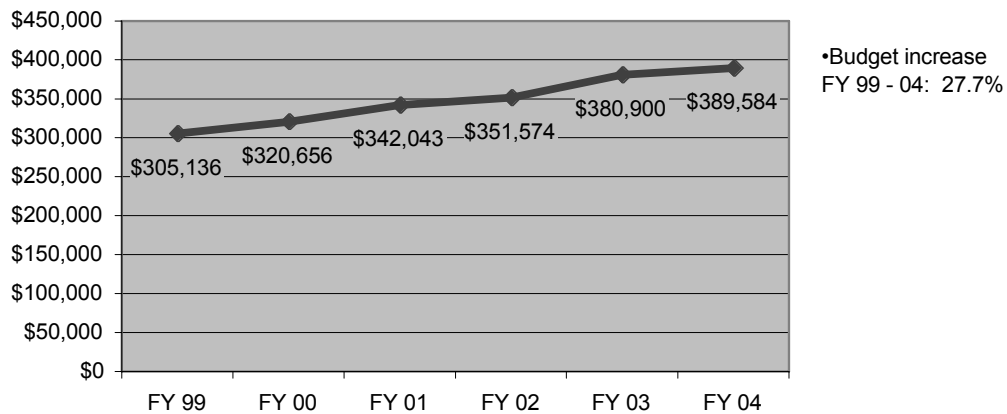
Type I Benchmark comparisons against other jurisdictions at a point in time



FY '98 - '02 Gross Operating Expenditures Per Capita Average. Population Data Source: FBI UCR, Expenditure Data Provided by Individual Jurisdictions, DC data from SOAR.

Figure 2-4

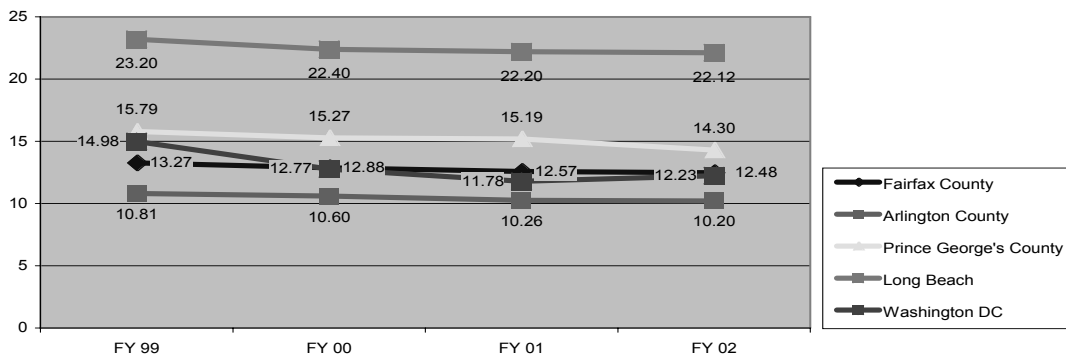
Type II: Trends over time



Dollars in Thousands. Includes Intra-District Funds. FY '99 - '04 Data: DC - SOAR.

Figure 2-5

Type III: Composite benchmark



Fairfax, Prince George's County, and Long Beach Enrollment and Teachers provided by individual jurisdictions. Arlington, Boston, Charlotte, and Washington DC Teachers: DCPS. Washington DC Enrollment: OCFO.

resents the executive branch's management of agencies and programs to meet the goals and priorities determined by the Mayor and District Council, working with the citizens of the District.

The strategic priority areas of the District are:

- Strengthening Children, Youth, Families and Elders;
- Building Safer Neighborhoods;

- Promoting Economic Development;
- Making Government Work;
- Building Partnerships and Democracy; and
- Improving Public Education.

More information regarding these six policy priorities can be found in the District's strategic plan.

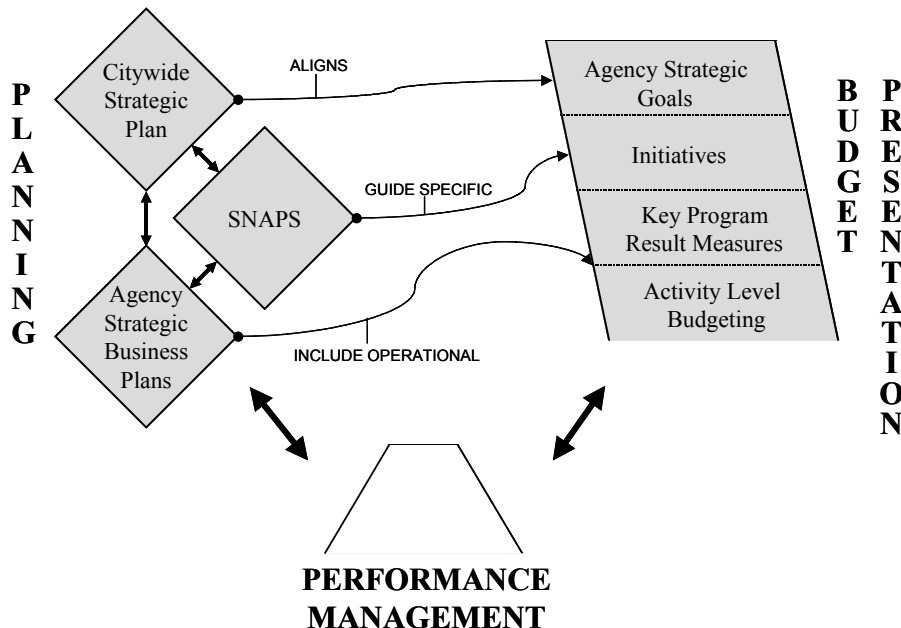
Figure 2-6

Strategic Management Cycle



Figure 2-7

Planning Integration



To be an effective component within the Strategic Management Cycle (Figure 2-6), PBB aligns with the District's strategic planning processes, both at the District and agency level. Together with the Office of Neighborhood Action and the OCA, PBB agencies develop strategic business plans that are linked to the Citywide Strategic Plan and Strategic Neighborhood Action Plans (SNAPs). Figure 2-7 illustrates how the planning processes are integrated and linked to the budget presentation. Figure 2-8 shows how the results of this planning integration are reflected in the documents supporting the FY 2005 budget process.

The District's implementation of PBB includes a concerted effort to align agency goals and key performance measures with the District's citywide strategic plan. For example, rather than reporting only the number of vehicles ticketed or streets cleaned, the Department of Public Works has the higher strategic goal of delivering 94 percent of its services in a timely manner. That goal, however, does not exist in a vacuum. It is tied to the broader citywide priority area of Making Government Work and its goal of delivering "all city services in a thorough, timely and efficient manner." In addition to integrating with the District's planning process, PBB serves to structure the District's performance management activities. These include agency scorecards, director performance contracts, and performance

evaluations associated with the management supervisory service (MSS) program and the employee performance management program (PMP). (See Figure 2-9.)

The linchpin for this alignment is the agency's strategic business plan. The business plan includes key elements that translate directly to the performance matrices reflected in the FY 2005 proposed budget, the citywide strategic plan and director performance contracts. For example, performance targets for medical service response time are reflected in the citywide strategic plan in the Making Government Work priority, the Fire Chief's performance contract, and the Fire and Emergency Medical Services Department's chapter in this budget book.

For PBB agencies, elements of agency strategic business plans are presented in the agency budget chapter narrative, including the mission statement, strategic result goals and key program results.

Strategic result goals articulate the priority areas for the agency to make program decisions during the next two to three years. The agency will implement various initiatives in the current year to progress toward the strategic result goals. Key program result measures represent the performance measures that an agency uses to demonstrate the annual success of a program. In many cases, meeting key program result performance targets will demonstrate progress toward a

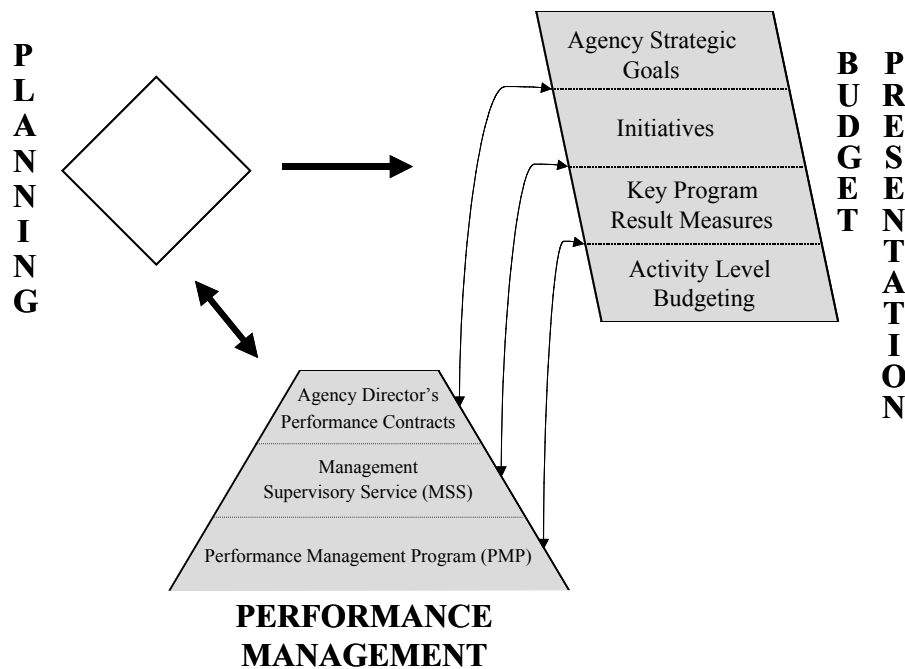
Figure 2-8

Aligning the Citywide, Budget, and Agency Plans



Figure 2-9

Performance Integration



specific agency strategic result goal. In short, key program result measures show what will be accomplished with the proposed funding level. In addition to key program result measures, each activity within a program has performance measures associated with output, demand, and efficiency categories.

These performance measures were developed for the program/activity structure developed in the business planning process. The program/activity structure in the business plan is the result of an effort to align the agency's resources appropriately to achieve the strategic goals of the agency. In the past, agency resources typically were aligned with organization units that did not represent discrete programs. While prior year data is available for performance measures in non-PBB and PBB phase I agencies, prior year performance data is unavailable for PBB phase II and III agencies because their performance information is newly created. These measures can be found in the agency strategic business plan for each activity.

Management Supervisory Service Training on Budget

It is one thing to provide financial tools that incorporate management information to program staff. It is quite another to expect people to know how to use these tools and interpret the information that is being provided to them. Realizing that preparing the District's program managers to access and use the financial and performance data will be important to the goal of improving how the District makes management decisions using financial information. OBP, in partnership with the Center for Workforce Development, has begun a training program for managers on budgeting and performance management.

Since the spring of 2003, OBP has provided budget training for the Management Supervisory Service (MSS) program [www.dcop.dc.gov/services/mss/index.shtm]. By offering such training to District program managers, this initiative seeks to enhance the working relationship between finance and program people in agencies. To date, representatives from OBP have trained more

than 800 MSS employees on the District's budgetary practices. The training and exercises helps District managers understand:

- What performance-based budgeting is;
- The budget formulation process and the respective roles of the agency, central budget office, and the stakeholders;
- Budget execution functions; and
- Budget language so they can communicate effectively with financial personnel.

Key Challenges

Individually, these financial and management initiatives will improve the practice of budgeting and management in the District. Collectively, these initiatives constitute a transformation of budgeting and management in the District. However, this transformation is not without its challenges.

- **People** - Our human resources must be up to the challenge. Accounting at the service level could potentially increase the load on the financial staff by at least tenfold. We have not determined what impact service-level budgeting will have on our accounts for budget and CAFR purposes, though accounting for a single expenditure across numerous services would require an enormous staff effort. We must ensure that we have the proper level of staffing as well as training to ensure SLB's success. SLB will directly increase the District's administrative costs in FY 2006 and beyond. These increased costs have not been assessed and will be based on the lessons to be learned during implementation of the first 20 services in FY 2005.
- **Technology** - Our technology systems must be up to the task. A new budget system with scalability to the service level is also important. We are confident that the aforementioned ARGUS and CFO\$ource are up to this task.
- **Training** - "Old habits die hard." If the District is to maximize the benefits from these tools and new technologies, it must provide the proper training and support for the users of these tools. Training will be especially critical to the success of new technology, including ARGUS and CFO\$ource.

- **Processes** - Our budgetary and financial policies and procedures must be updated to address the challenges posed by SLB. For instance, if funds are to be reprogrammed at the service-level, what authority do agencies have to reprogram without seeking Council approval? Reprogramming and other procedures do not address this level of budgetary detail.
- **Performance linkage** - Would service level budgeting also mean service level performance measuring and monitoring? Currently, for SLB to be meaningful to service managers, key result measures would have to be tied to the funding of the services. This is a core concept of the PBB framework and something that must be maintained with SLB. The current level of staff and resources devoted to performance management and evaluation in OCA, OBP and agencies is not sufficient to accommodate a significant increase on the volume of key result measures. The impact of developing and tracking these new measures has not yet been estimated or funded.
- **Managing Expectations** - No one should be under the illusion that these improvements-either alone or collectively - are a panacea. There is no magic formula when it comes to improving government operations. But what we are doing and planning are important and significant strides in the District's budgeting and management practices.

Conclusion

The District has a vision for what a 21st century budget and financial operation should look like. With the new tools in place, not only will decision-makers have better information upon which to make policy and resource allocation decisions, service providers will have the necessary information to make effective decisions regarding the use of the District's resources on a daily basis. We are confident that as we successfully forge and implement these tools, the District will be better able to use its resources to meet the needs of citizens and stakeholders.